

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM STATEMENT OF INVESTMENT POLICY

FOR CREDIT ENHANCEMENT PROGRAM

~~August 14, 2006~~ October 12, 2007

This Policy is effective immediately upon adoption and supersedes all previous Credit Enhancement Program Policies.

I. PURPOSE

The CalPERS Total Fund Statement of Investment Policy adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS' overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("~~the Policy~~") for the ~~CalPERS~~ Credit Enhancement Program ("~~the Program~~"). The design of this Policy ensures that investors, managers, consultants, and other participants selected by the California Public Employees' Retirement System ("~~CalPERS~~the System") take prudent and careful action while managing the Program. Additionally, use of this Policy ~~provides~~ assures ~~once that there is~~ sufficient flexibility in managing~~controlling~~ investment risks and returns associated with the management and oversight of the Program.

II. STRATEGIC OBJECTIVES

The Program shall be managed to accomplish the following:

~~The primary objective of the Program is to e~~Earning fee income through a zero loss-underwriting standard. Fees will be generated from annual commitments, up-front closings, amendments, and waivers~~;~~ and

~~To minimize the incentive to maximize fee income, which could lead to increased risk, no specific rate of return is targeted. Rather, CalPERS~~the System expects strict conformity with the Policy and shall let will allow the market mechanisms to set the pricing for of credit enhancement instruments vehicles~~;~~ which will result in incremental income.

III. RESPONSIBILITIES

A. ~~The System's Investment Committee ("the Investment Committee") shall have the following responsibilities and duties:~~

1. ~~Approving Credit Enhancement Policy, and~~

2. ~~Reviewing Credit Enhancement Program performance annually with the Staff and the General Pension Consultant.~~

B.A. The ~~System's Investment Staff~~ CalPERS' Investment Staff ("the Staff") is responsible for ~~duties shall include, but are not limited to,~~ the following:

~~1. Providing a due diligence analysis on each transaction focusing, at a minimum, on the borrower's income, balance sheet, cash flow trends, and transaction structure.~~

1. All aspects of portfolio management, including monitoring, analyzing, and evaluating performance;

2. Reporting to the Committee annually and more often, if necessary, about the performance of the Program;

~~3. Reporting to the Investment Committee annually about the performance and compliance of the Program.~~

~~4. Monitoring the implementation of, and compliance with, the Policy. Staff shall report, orally or in writing, concerns, problems, material changes, and all violations of the Policy immediately to the Senior Investment Officer ("SIO")~~

~~4. Reviewing the Policy annually and recommending changes, if any, to the Investment Committee.~~

2.3. Preparing a [Prudence Certificate](#) for each transaction.

~~5. Reporting immediately all Policy violations to the Chief Investment Officer (CIO) and the Investment Committee at the next Board meeting with explanations and a plan of action to prudently remedy such a violation.~~

B. The General Pension Consultant is responsible for monitoring, evaluating, and reporting periodically (at least once annually), to the Committee, on the performance of the Program.

IVVII. VIOLATION REPORTING

A. The violation reporting process shall be as follows:

~~1. The Staff shall report orally, or in writing, all Policy violations immediately to the Senior Investment Officer, Global Fixed Income Unit.~~

~~2. The Senior Investment Officer, Global Fixed Income Unit (SIO) shall immediately report orally, or in writing, any Policy violation verbally to the Chief Investment Officer (CIO), and the Chief Operating Investment Officer ~~Investment Committee (IC).~~~~

~~3. As a follow-up to the verbal report, the Staff shall prepare a written report of any Policy violation within a time period not exceeding 30 days.~~

4.3. ~~The Chief Investment Officer shall determine the appropriate means of further reporting based on his or her judgment of the magnitude, sensitivity and severity of the violation.~~

- a. All Policy violations shall be reported to the Investment Committee as part of a quarterly report agenda item on the Investment Committee's regular agenda. ~~The report shall coincide with the regular quarterly reports of the CalPERS General Pension Consultant.~~
- b. Depending on the Policy violation, and at the discretion of the Chief Investment Officer CIO, reporting may also be made to the Investment Committee as a separate agenda item or as a portion of the CIO Report at the next scheduled Committee meeting. These reports shall include explanations of the violations and appropriate recommendations for corrective action. ~~The report may be made as a separate agenda item or as a portion of the Chief Investment Officer's Report at the next scheduled Investment Committee meeting.~~
- c. If a Policy violation is to be reported to the Investment Committee, the General Pension eConsultant shall be asked to provide an opinion as to the impact of the Policy violation to the Program and/or overall fund.

IV. DELEGATIONS

~~Staff may, subject to an analysis, documentation and fulfillment of the fiduciary responsibility, and upon approval from the Senior Investment Officer (SIO), Fixed Income Unit and the Chief Investment Officer (CIO), revise the following areas:~~

~~A. Permissible sectors; and~~

~~B. Portfolio average maturity and term to maturity limits.~~

VII. INVESTMENT APPROACHES AND PARAMETERS CREDIT APPROVAL POLICY AND PROCEDURES

A. ~~Instruments e~~ Eligible vehicles for credit enhancement:

1. Letters of Credit – These are irrevocable instruments ~~obligations~~ used to provide credit and liquidity on variable or fixed rate note and bond transactions. The legal obligation to fund under these

~~instruments documents~~ is **unconditional**. CalPERS' understands that Letters of Credit are irrevocable draws by the [Trustee](#) and will be funded according to the established ~~f~~Funding ~~p~~Procedures.

2. [Lines of Credit](#) – These are also referred to as [Standby Bond or Note Purchase Agreements](#) ~~or~~ and [Liquidity Lines](#). These are designed to provide liquidity (as opposed to credit enhancement) in the event of financial market disruption. The legal obligation to fund under these ~~vehicles instruments~~ is **conditional**. These are also referred to as revocable ~~vehicles instruments~~.

B. Exclusions:

1. CalPERS will not provide direct- funded loans.
2. The Program will not consider transactions with municipal issuers or conduit issuers on their behalf (obligors) that have **defaulted on any debt (private or public) or** declared bankruptcy in the last fifteen years.
3. The Program will not consider [Certificates of Participations \(COPs\)](#) other than those transactions for [Essential Municipal Services](#), ~~(for example, court houses, police and fire stations, water/sewer, and municipal buildings).~~

C. Credit [Ratings](#):

1. All issuers under the Program shall be rated [investment grade](#) by at least two [nationally-recognized credit rating agencies](#) (e.g., [Moody's](#), [Investors Service](#), [Standard and Poor's](#) and [Fitch Ratings](#)) and any outstanding rating must be investment grade by at least two nationally-recognized credit rating agencies. In addition, such an issuer ~~sh~~ould not have been rated in the non-investment grade category by any nationally-recognized credit rating agencies at any time within the last five years.
2. If an issuer is not initially rated, an independent [Rating Category Determination \(RCD\) letter](#) shall be procured from at least two nationally-recognized credit rating agencies. The RCD will provide a determination as to whether a proposed transaction is of investment grade quality.

D. Credit Rating Portfolio Limits:

1. The average credit quality of the Program's portfolio shall be "single-A" long-term [credit rating](#) designation (A2 by Moody's, A by ~~Standard and Poor's~~ [S&P](#) and A by Fitch. See Appendix I for

equivalent ratings by Moody's, ~~Standard and Poor's~~ S&P and Fitch).

2. Where a credit transaction has a split rating, i.e. BBB+/A- from two or more credit rating agencies, ~~the~~ Staff shall use the lower rating for purposes of calculating the average credit quality of the Program's portfolio.

E. Portfolio Average Maturity

1. The weighted average maturity of the Program's portfolio shall not exceed 5 years.

F. Portfolio Diversification

1. Geographic Distribution

a. *Philosophy:* Municipalities in ten States – **California, New York, Florida, New Jersey, Texas, Pennsylvania, Illinois, Massachusetts, Michigan and Ohio** -- have the largest municipal issuance volume and have consistently been in the "top-ten" ~~s~~States for municipal issuance for at least the last ten years. ~~Since geographic diversification does not significantly reduce risk, and issuance volume is directly correlated to population and opportunities, the~~ Program's portfolio will be aligned with ~~s~~States having the largest populations and largest municipal issuance volume.

b. *Implementation:* ~~Although geographic distribution is less of a concern from a risk standpoint,~~ Staff will construct a credit enhancement portfolio, using ~~on~~ an aggregate dollar total, that will be distributed on a parallel basis to municipal issuance across the entire market with limitations as shown in ~~the~~ Table 1 below.

2. Direct State Government Issued Debt Limits (Table 1)

a. *Philosophy:* The overall mission of the Program is to earn fee income on an expected zero loss-underwriting basis, ~~by supporting municipal infrastructure development throughout the United States. As such, the~~ Program envisions the majority of primary obligors to be municipalities, ~~not~~ state governments.

b. *Implementation:* To further control risks and increase portfolio diversification, Direct State Government Issued Debt (voter or non-voter approved) shall not exceed 40% of the Total Aggregate Program Portfolio within a particular

~~State. For example, Direct State Government Issued Debt in California shall not exceed 18% (or 45% x 40%) of the Total Aggregate Program Portfolio as shown in Table 1 below.~~

Table 1: State Geographic Distribution and Debt Limits

State Geographic Distribution	Percentage of Aggregate Program Portfolio	Direct State Government Issued Debt Limits
California	Not to exceed 45%	Not to exceed 18%
New York	Not to exceed 35%	Not to exceed 14%
Florida	Not to exceed 30%	Not to exceed 12%
All Other States*	Not to exceed 20%	Not to exceed 8%

* Includes the other 47 states and US Territories & Possessions (Guam, Midway Islands, Puerto Rico, US Virgin Islands and Wake Islands)

3. Municipal Sector ~~Limits~~ Exposure

- a. ~~Philosophy: Risk minimization is the desired objective of the Program. As such, only those entities rated investment grade within the traditional municipal sectors, that are secured by revenues from the particular entity or back-stopped by the taxing authority of the municipality; and which have with demonstrated low default rates will be eligible for the Program's enhancement.~~
- b. ~~Implementation: To further control risks and strengthen portfolio diversification objectives, the Program's portfolio exposure within each state shall be diversified by through transactions in different municipal market sectors. Accordingly, all of the issuers within the portfolio shall come from one of the outlined governmental and public sectors below (including non-profit 501(c)(3) institutions) that comprise the U.S. municipal market.~~

For any issuer which is a public agency employer for purposes of participation in CalPERS credit enhancement program or entity that might become a public agency employer, a written opinion of counsel for issuer is required that either:

- i. Issuer's securities are exempt pursuant to Section 3(a)(2) of the Securities Act of 1933 (as security issued by a state or any political subdivision of a state or by any public instrumentality of a state or any political subdivision thereof); or

- ii. Issuer's securities are exempt pursuant to section 3(a)(4) of the Securities Act of 1933 (the 501(c)(3) exemption).

Table 2: Municipal Sector Limits

Sector Nos.	Market Sectors	Percentage of Total Aggregate Program Portfolio
1	General Obligation /Short Term General Fund/Cash Flow Notes	Not to Exceed 100%
2	Public Infrastructure, Facilities and Equipment	Not to Exceed 80%
3	Transportation and Highway	Not to Exceed 70%
4	Water and Waste Water	Not to Exceed 70%
5	Education	Not to Exceed 60%
Sectors Below Shall Not Exceed 50% of Total Aggregate Program Portfolio		
6	Municipal Utility Systems	Not to Exceed 50%
7	Airport and Marine Ports	Not to Exceed 40%
8	Student Loan and Pooled Loan Programs	Not to Exceed 30%
9	Housing	Not to Exceed 25%
10	Securitization Programs	Not to Exceed 15%
11	Public-Supported Stadiums/Arenas	Not to Exceed 15%
12	Solid Waste Facilities/Resource Recovery/Environmental	Not to Exceed 10%
13	Healthcare	Not to Exceed 10%
14	Other*	Not to Exceed 10%

* This category is established for exceptions to the Policy. It is desirable to respond to changing market conditions and to take advantage of key opportunities that ~~would might~~ not specifically fit into the Policy. ~~For example, it may include municipal transactions that have been structured to an investment grade level for an underlying issuer with a non-investment grade rating or for new transactions not contemplated in the Policy (for example, public purpose not-for-profit organizations, tender options, and industrial developments with municipal support).~~

4. [Special Assessment Districts](#)

- a. *Philosophy:* Some studies have generally categorized Special Assessment Districts as having a higher default profile in the [municipal bond](#) market.
- b. *Implementation:* Accordingly, the Program shall only consider such tax allocation/[special assessment bonds](#) with the following characteristics:
 - i) The location is within the geographic region or city limit of a substantial, investment grade rated entity with an identifiable level of past and likely future growth and demand for housing and related infrastructure;

- ii) The District is not a “start-up”, with at least five years of existing track record and debt servicing record;
- iii) Raw land sales have been steady or increasingly strong due to demographic demand and population growth; and
- iv) The developer or sponsor is of investment grade quality with excellent debt repayment history and strong construction/management experience.

G. Program Transaction Limits

- 1. The maximum ~~single risk limit~~ per transaction shall be \$250 million.
- 2. The maximum holding in any given transaction in California shall be 25% of the issue in order to be in compliance with the [Safe Harbor rules](#) established under Section 503(e) of the Internal Revenue Code (IRC). ~~Outside California, the maximum holding in any given transaction shall be 50% of the issue.~~

H. Program Partnerships

The Program, shall co-invest with at least one [Financial Partner](#) on each transaction; ~~I~~ the Financial Partner(s) shall contribute to a sizeable interest on the transaction.

VI. CALCULATIONS AND COMPUTATIONS

A.a. Computations and calculation shall be based upon the total aggregate amount of \$5 billion committed to the Program.

B.b. The “[primary obligor](#)” shall be used in computing geographic distribution limits, direct State government issued [debt limits](#) and municipal market sector limits.

VIII. GLOSSARY OF TERMS

~~Definitions for k~~ Key words used in ~~the~~ this policy are defined ~~located in the Fixed Income Glossary of Terms which is included in CalPERS' the System's Master Glossary of Terms.~~

Approved by the Policy Subcommittee: September 12, 2003
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APPENDIX I

Equivalent Credit Ratings

Credit Risk	Moody's*	Standard & Poor's**	Fitch**
INVESTMENT GRADE			
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (strong)	A	A	A
Medium grade	Baa	BBB	BBB
NON-INVESTMENT GRADE			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	C	C
In default	C	D	D

Source: The Bond Market Association

* The ratings from Aa to Ca by Moody's may be modified by the addition of a 1,2 or 3 to show relative standing within the category.

** The ratings from AA to CC by Standard and Poor's and Fitch may be modified by the addition of a plus or minus sign to show relative standing within the category.

Amendment Fee

A fee charged by an underwriter or a group of underwriters for any amendment(s) to the Credit Instrument (Letter of Credit/Line of Credit), Reimbursement Agreement or Trust Indenture.

Annual Commitment Fee

A fee charged by an underwriter or a group of underwriters covering the period from commitment to defeasance.

Authority or Agency

A state or local unit of government created to perform a single activity or a limited group of functions and authorized by the state legislature to issue bonded debt.

Bond

A unit of debt, \$1,000 of principal or par amount. For 200 years municipal bonds were sold in \$1,000 denominations. Since the mid-1970s the minimum bond denomination has been \$5,000; nevertheless, "A Bond" is bought, sold, referred to, and priced as if it were \$1,000.

Certificates of Participation (COP)

A form of lease revenue bond that permits the investor to participate in a stream of lease payments, installment payments, or loan payments relating to the acquisition or construction of specific equipment, land, or facilities. In theory, the certificate holder could foreclose on the equipment or facility financed in the event of default, but so far no investor has ended up owning a piece of a school house or a storm drainage system. A very popular financing device in California since Proposition 13, because COP issuance does not require voter approval. A COP is not viewed legally as "debt" because payment is tied to an annual appropriation by the government body. As a result, a COP is seen by investors as providing weaker security and often carry ratings that are a notch or two below an agency's general obligation rating.

Chief Investment Officer

Heads the CalPERS Investment Office and works with the Investment Committee to develop a long-term investment policy and asset allocation strategy for the Public Employees' Retirement Fund.

Credit Enhancement

The term is used in context of CalPERS Credit Enhancement Program (CEP). It refers to instruments whereby CalPERS' CEP credit rating is used to strengthen the credit rating of a lower-rated entity in bond or note financing transaction through either liquidity (e.g. standby bond or note purchase agreements, lines of

credit) or credit guarantees or both liquidity and credit guarantees (e.g. letters of credit). Through the use of these instruments CalPERS' CEP credit rating is substituted for that of a lower rated entity in exchange for a fee. Such enhancements become a contingent liability upon CalPERS' overall balance sheet.

Credit Rating

A current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. In the case of split ratings, the higher rating of either Moody's, Standard & Poor's, or Fitch Investor Services shall apply.

Debt Limit

The maximum statutory or constitutional amount of debt that the general obligation bond issuer can either issue or have outstanding at any time.

Default

Failure to pay in a timely manner principal and/or interest when due, or a Technical Default, the occurrence of an event as stipulated in the Indenture of Trust resulting in an abrogation of that agreement. A Technical Default can be a warning sign that a default on debt service is coming, but in reality actual debt service interruption does not always occur if the problems are resolved in time. A Technical Default will almost always drive down the price of a bond in secondary market trading.

Direct State Government Issued Debt

Any bond or security directly issued by state governments (voter or non-voter approved), including but not limited to, General Obligation debt, Tax and Revenue Anticipation Notes, Tax Anticipation Notes, Revenue Anticipation Warrants, and Revenue Anticipation Notes. Where the state has taken over the underlying municipal government finances, such issuer automatically acquires implicit/explicit state-level support, and this will count towards the direct state government issued debt limit.

Essential Municipal Services

Those municipal services including, but not limited to, water, power, sewer, garbage removal, and other infrastructure essential to the well being and quality of life of a municipality, and upon which the municipality pays a high priority in service delivery.

Financial Partners

A financial institution (public or private) that collects funds (from the public or other institutions) and invests them in financial assets.

Fitch Ratings

A nationally-recognized credit rating agency that grades the investment quality of bonds in a 10-symbol system. The ranges extend from the highest investment quality, which is AAA, to the lowest credit rating, which is D. Securities rated BBB- or greater are considered investment-grade. Securities rated BB+ or below are considered to be speculative.

General Obligation Bond

A bond secured by a pledge of the issuer's taxing powers (limited or unlimited). More commonly the general obligation bonds of local governments are paid from ad valorem property taxes and other general revenues. Considered the most secure of all municipal debt. Limited in California by Proposition 13 to debt authorized by a vote of two-thirds of voters in the case of local governments or a simple majority for State issuance.

General Pension Fund Consultant

An individual or organization that provides specialized professional assistance to the CalPERS Board of Administration in determining the pension fund's asset allocation model or optimal combination of investments in order to maximize risk-adjusted investment returns in a manner consistent with the State's long-term pension liabilities.

Industrial Development Bonds

~~Also called Industrial Revenue Bonds. Used to finance facilities for private enterprises, water and air pollution control, ports, airports, resource-recovery plants, and housing, among others. The bonds are backed by the credit of the private corporation borrower rather than by the credit of the issuer. Also known as Conduit Bonds. Private purpose bonds are limited by federal law to \$50 times the state's population on an annual basis.~~

Investment Grade

A minimum credit rating of Baa3 by Moody's Investor Service or BBB- for Standard & Poor's Corporation, and BBB- by Fitch. Investment grade ratings apply to issuers whose financial risk is relatively low and the probability of future payment relatively high.

Irrevocable

A binding and irreversible commitment.

Issuer

A state or local unit of government that borrows money through the sale of bonds and/or notes.

Letter of Credit

A form of supplement or, in some cases, direct security for a municipal bond, under which a commercial bank or private corporation guarantees payment on

the bond under certain specified conditions. The legal obligation to fund these instruments is "unconditional" (irreversible instrument).

Lines of Credit

These are also referred to as Standby Bond or Note Purchase Agreements and Liquidity Lines. These are designed to provide liquidity (as opposed to credit enhancement) in the event of financial market disruption. The legal obligation to fund under these instruments is "conditional" (revocable instruments).

Liquidity Lines

See Lines of Credit.

Moody's Investors Service

A nationally-recognized credit rating agency that grades the investment quality of bonds in a 9-symbol system. The ranges extend from the highest investment quality, which is Aaa, to the lowest credit rating, which is C. Securities rated Baa3 or greater are considered investment grade. Securities rated Ba1 or below are considered to be speculative.

Municipal Bond

Bonds issued by any of the 50 states, the territories and their subdivisions, counties, cities, towns, villages and school districts, agencies (such as authorities and special districts created by the states), and certain federally-sponsored agencies (such as local housing authorities). There are two broad groups of municipals: 1) Public Purpose bonds, which remain tax-exempt and can be issued without limitation; and (2) Private Purpose Bonds, which are taxable unless specifically exempted.

Nationally Recognized Credit Rating Agencies

See Moody's, Standard and Poor's, and Fitch.

Non Profit 501(c)(3) Institutions

These are institutions exempt from federal, and in some cases, state income tax.

Note Purchase Agreement

A formal agreement between the issuer of the bonds and the purchaser of bonds that describes the terms and conditions applicable to the bond.

Notes

Intermediate-term, interest-bearing instruments issued by corporations, municipalities, or the federal government with maturities commonly ranging from five to 12 years.

Primary Obligor

The entity directly responsible for making interest and principal payments on an outstanding obligation. Investors will look to a secondary obligor (i.e., credit

enhancer, fronting bank, etc.) should the primary obligor fail to make these payments.

Prudence Certificate

The prudence certificate includes (1) signatures of the investment officers or portfolio managers involved in reviewing the transaction; (2) their verification that the credit enhancement is a prudent use of CalPERS funds and that the transaction has been made with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting on a like capacity and familiar with those matters would make; (3) verification that the transaction does not constitute a prohibited transaction within the meaning of the California Public Employees' Retirement Law (constituting Article XVI, Section 17 of the California Constitution); and (4) verification that the staff is unaware of any fees, compensation, agreements, or arrangements constituting a conflict of interest under the California Public Employees' Retirement Law (constituting Article XVI, Section 17 of the California Constitution) with respect to any member of the Board or any of the CalPERS employees or internal investment contractors.

Rating Category Determination Letter

Privately-issued alphabetical and numerical designations issued by the credit rating agencies to give relative indications of non-publicly rated bond and note creditworthiness.

Ratings

Various alphabetical and numerical designations used by institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness. Standard & Poor's and Fitch use the same system, starting with their highest rating of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Services uses Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C, and D. Each of the services use + or - or +1 to indicate half steps in between. The top four grades are considered investment grade ratings.

Safe Harbor Rules (IRC 503(e))

Restricts investments to no more than 25 percent in any transaction involving the plan sponsor.

Security

Instrument that signifies an ownership position in a corporation (stock), a creditor relationship with a corporation or governmental body (bond), or rights to ownership such as those represented by an option, subscription right, and subscription warrant.

Senior Investment Officer of Fixed Income

The senior investment officer is responsible for all fixed income and reports to the chief investment officer of CalPERS.

Special Assessment Bond

A bond secured by a compulsory levy of special assessments, as opposed to property taxes, made by a local unit of government on certain properties to defray the cost of local improvements and/or services that represents the specific benefit to the property owner derived from the improvement. In California, these are usually 1915 Act or 1911 Act Bonds.

Special Assessment Districts

Special assessment districts may be initiated: 1) either through a resolution by city council; or 2) at the request of a property owner whose property would be included in the district to be assessed. Such districts describe a method of financing public improvements by distributing the cost of a project over those property owners who will reap a direct benefit. The types of local public improvements that are most often paid for through special assessments include sanitary sewers, storm drains, water mains, road paving, dust control, sidewalk construction, and street lighting.

Split Rated Security

A security that has a different credit classification by two rating agencies. For the purpose of this policy, a security is called a split-rated security, if Standard & Poor's and Moody's report a difference in the ratings.

Stand By Purchase Agreement

See Lines of Credit.

Standard & Poor's

A nationally-recognized credit rating agency that grades the investment quality of bonds in a 10-symbol system. The ranges extend from the highest investment quality, which is AAA, to the lowest credit rating, which is D. Securities rated BBB- or greater are considered investment grade. Securities rated BB+ or below are considered speculative.

Trustee

A bank designated as the custodian of funds and official representative of bondholders. Trustees are appointed to ensure compliance with the trust indenture and represents bondholders to enforce their contract with the issuer.

Up Front Closing Fee

A fee paid up-front by an issuer to an underwriter or a group of underwriters, which agrees to purchase an entire security issue for a specified price, usually for resale to others.

Variable Rate Bond

A bond whose yield is not fixed but is adjusted periodically according to a prescribed formula.

Waiver Fee

A fee paid by an issuer to an underwriter or a group of underwriters to waive any requirement of the Credit Instrument (Letter of Credit), Reimbursement Agreement, or Trust Indenture.